

**WASHINGTON STATE FERRIES
TARIFF REVIEW PHASE II**

Summary Report

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Acknowledgments

Many thanks to the very patient and hard-working Tariff Policy Committee which has grappled with difficult issues of ferry fares for over three years. The Committee at one point adopted a phrase coined by Representative Karen Schmidt which served as a reminder to keep everyone focused on the goal: “If you are flying from New York to Seattle, you don’t get off in Detroit.”

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Introduction

Beginning in 1991, Washington State Ferries (WSF) undertook a comprehensive review of its fare structure. With the guidance of a Policy Committee composed of elected officials, rider and stakeholder representatives and staff, the tariff review project studied all aspects of ferry pricing policies and recommended a major overhaul of the toll structure. The Transportation Commission twice unanimously adopted the Policy Committee's recommendations to change the existing schedule of tolls. The tariff review study recommended that some of its proposed changes be phased in. It also left a number of issues for later resolution. Thus, in the spring of 1993, the Tariff Review project was reconvened to continue the work begun two years earlier. This report summarizes the changes made during the second phase of the process.

Background

At the beginning of the Tariff Review project, four goals were established:

Simplification. There was widespread agreement that the fare structure, with over 200 fare categories, was far too complicated. Fare automation and customer service considerations dictated that the tariff be streamlined.

Consistency and equity. Fares for vehicles of different sizes and types had little internal logic and appeared unfair to many users of the system. Ambiguities in the tariff gave rise to inconsistent application of fares. The relationship between passenger and vehicle fares was unclear. These issues needed to be addressed.

Transportation demand Management (TDM). For many months of the year, the ferries are congested with vehicle traffic, and riders must endure delay and long waits to board. Fare incentives to help manage demand were desired.

Revenue neutrality. The tariff review was not intended as a mechanism to raise revenue, but rather that restructuring and revenue issues should be kept separate. However, it was also intended that no revenues be lost.

These goals were successfully met by the changes adopted in Phase I. The major accomplishments of the fare restructuring involved the following areas:

- A single space-based vehicle tariff was created. Based on the amount of space the vehicle takes up on the deck of the ferry (length, width and height), cars, motorcycles and all long vehicles now are charged a consistent rate. Where there had previously been separate fare categories for commercial and non-commercial long vehicles, the new tariff had a single merged rate for oversize vehicles.
- A uniform discount policy was established for frequent users of the ferries. All vehicles received a 20% fare discount for frequent use. Passengers received a 40% discount. Joint ferry/bus passenger received a 50% discount.
- The peak season surcharge of 20% on vehicles was extended to encompass the May to October peak travel season where it had previously only been applied from June to September. This was intended to help manage demand during the busy season as well as to offset revenue losses from the merging of the oversize fares.

Overall, these and a number of other minor changes to the tariff were accomplished within what was projected to be a 1% to 3% range of revenue changes. A number of additional fare issues were studied and no changes were adopted. These issues included a thorough study of comparative route prices, time-of-day differential pricing, and the ratio of passenger to auto fares. Upon careful consideration, the Policy Committee concluded that changes in these areas would not bring about improvements or would not be consistent with the study goals.

Public Involvement

The proposed fare changes were subjected to extensive public involvement. In addition to the participation of ferry riders and other stakeholders in the tariff review itself, a campaign to provide information and seek input on fare issues was carried out. Open houses were held at six ferry terminal communities, informational brochures were placed on the boats at several stages of the process, key user groups received briefings, and specialized mailings were sent to local elected officials and user groups. Ferry System employees, Ferry Advisory Committees and transit agencies were also consulted during the process. The comments of all of these interests were incorporated into the analysis and the final recommendations.

Phase I Evaluation

The first phase of the tariff revision was adopted in the summer of 1992 and took effect that September. Early in 1993, an evaluation was undertaken to determine whether the new tariff was experiencing any problems and if the projected ridership and revenue effects had actually taken place. The evaluation found that customer acceptance had generally been excellent and that ticket sellers found the new tariff simpler to administer and to explain.

Only one change was not well accepted by everyone and that was the introduction of a height surcharge on vehicles shorter than 20 feet in length but taller than 7'6," for example certain camper vans. This change had been introduced for two reasons: for consistency with the space-based concept of charging all vehicles for the length, width and height used, and secondly, as a TDM measure to place a premium on the scarce "tall" center aisle space on double-decked vessels. It was specifically riders on the routes that do not use double-decked ferries who complained about having to pay the height surcharge.

The revenues from the oversize vehicles during the first three months of the new tariff declined, as projected, primarily because of the reduced fares of many of the longer trucks. However, ridership barely declined at all for the same group, indicating the same number of vehicles was traveling, but generating less revenue. These revenue losses were to be offset by the extension of the peak season surcharge the following spring.

Items Held Over from Phase I

A number of issues were unresolved at the time that Phase I concluded. Foremost among these were the second and third phases of the oversize fare restructuring. These subsequent phases were thought to be more difficult to implement since they represented successive increases of up to 25% for some fare categories. Other items held over included the pricing and duration of frequent user coupons and the development of a commuter monthly pass; fare increases on the international Anacortes to Sidney routes to keep it operating at 100% of its costs; rounding fares to the nearest 25 cents; fares on the proposed new passenger-only service; additional demand management incentives; and finally, an examination of issues relating to general revenue needs of the ferry system.

In the spring of 1993 the Policy Committee was reconvened to begin to address these remaining issues.

Overview of Phase II

At the beginning of Phase II it was clear that adoption of the next step of the phased oversize fare restructuring enjoyed the full agreement of the Policy Committee and could be forwarded to the Transportation Commission immediately, while the remaining issues which required analysis and study by the Committee would take longer. Thus, it was agreed that this item would be adopted for 1993 implementation and the remaining issues would be studied and worked on pending 1994 implementation. The 1994 issues included:

- The need for a general fare increase

- Fare rounding
- Monthly pass and coupon pricing
- Phase III of the oversize restructuring
- Passenger-only fares
- Issues relating to demand management

Oversize Restructuring Phase II

At its May 1993 meeting the Policy Committee recommended that the fares of all vehicles between 20 feet and 60 feet in length, as well as the height surcharge, be increased by the amount designed to represent the second step of the three-phase restructuring. For the Cross-Sound routes the fare changes were as follows:

Table 1		
Oversize Fare Increases		
	Phase I Fare	Phase II Fare
20' to 30'	\$10.40	\$13.30
30' to 40'	\$13.90	\$17.75
40' to 50'	\$19.40	\$24.30
50' to 60'	\$23.30	\$29.15

The height surcharge on the Cross-Sound routes was increased from \$1.40 to \$3.35. The Committee was asked to reconsider the imposition of the height surcharge on routes that did not use double-decked ferries. After consideration and discussion, the Committee chose to leave the surcharge on all routes, believing that the tariff should be applied uniformly system-wide and that the logic of the length, width and height-based fare structure should be preserved. The Committee recommendations were forwarded to the Transportation Commission to take effect in October 1993.

The Need for New Revenue

During Phase I of the Tariff review the intent of the changes to the fare structure was to simplify and create more consistent and equitable fares, not to generate income for the ferry system. The restructuring of fares resulted in some fares increasing and others decreasing. The end result was little or no net change in revenue for the ferry system. The intent of Tariff Review Phase II, however, was to generate new fare income needed for system operations. WSF staff reported to the Committee that by 1994 total operating expenses were projected to exceed income by a significant amount. Only the availability of a cash reserve in the system would prevent a shortfall.

Transportation Commission policy states that the ferry system farebox is responsible for generating 60% of operating expenses. The remaining 40% is to be provided by tax support from the state. However, during the 1980s growth had been strong enough to allow farebox recovery to hover between 60% and 70% of operations. Ferry system analysis showed that farebox recovery had declined to approximately 62% of operations in 1993 and was projected to decline to 60% by 1994 and more thereafter. State tax support was at 39% in 1993, declining to 34% in 1994 and continuing to decline through the end of the decade.

While this was not an immediate concern because the system had an operating reserve account of \$55 million in 1993, it was nevertheless a situation that needed to be addressed because the reserve was eroding from year to year. The Policy Committee first revisited the issue of the 60% farebox recovery policy and had several discussions about whether the historical policy should be maintained. Especially since the farebox had historically been able to generate closer to 70% of operations and since state support was headed for 30% in the coming years, the Committee considered a 70-30 policy. However the view on the Committee prevailed that the ferry system was

part of the regional transportation network and that ferry users already paid a substantial user fee over and above the transportation taxes paid by everyone.

Thus a 40% state share contribution appeared equitable and the Committee saw no need to change existing Commission policy which provides for a 60-40 split in user versus state support of the system. The Committee undertook to review the need for fare increases by focusing on maintaining the 60% farebox recovery rate.

History of Ferry Fare Increases

The history of fare increases for the ferry system has been sporadic, and most fare increases have been an across-the-board percent increase to all fare categories. The last fare increase was 3% in 1987. There had been no need for an increase between 1987 and 1993 due to population growth in the Puget Sound region. The increased ridership volume allowed fare revenues to grow and the increasing population also generated growth in the state tax sources that support ferry operations. In the last few years, however, the economy slowed and population growth in the region leveled off, so revenues were no longer growing fast enough to offset the rising operating expenses. Table 3 shows a complete history of ferry fare increases from 1952 to 1987

Fare Increases at Other Transit Agencies in the Region

The evaluation of fare increases for WSF began with a comparison of recovery ratios and increases at other transit agencies and the manner in which they were handled. This comparison was to put the WSF fare increase into context; it was not to suggest that the WSF is directly comparable to other transit systems. A brief telephone survey was conducted in July 1993 with King County Metro, Kitsap Transit and Community Transit.

Table2
Findings of Regional Transit Fare Survey

Metro

- The Metro Council has a targeted farebox recovery rate of 25%
- Total peak fare increases of 69% between 1987 and 1993

Kitsap Transit

- The Kitsap Transit Board has a targeted farebox recovery rate of 18%
- Total peak fare increases of 50% between 1987 and 1993

Community Transit

- The CT Board has a targeted farebox recovery rate of 15% for local service and 60% for commuter service
- Total local fare increases of 60% between 1987 and 1993

Table 3
Historical Fare Increases

1951	State of Washington takes over ferry routes.
1952	Reduction in cross-Sound fares to better match shorter routes on a cost per mile basis.
1955	Across-the-board increase of \$0.05 for passenger and \$0.10 for auto fares.
1957	Across-the-board nominal increase of 10% for all fares; actual increases ranged from 0% to 15% due to rounding.
1959	Passenger fares increased \$0.10 TO \$0.20, and auto fares increased by \$0.10.
1964	Across-the-board fare increase of \$0.05 for both passengers and autos, except for Bremerton, Clinton and Sidney routes.
1968	Across-the-board fare increase of \$0.05 for passengers and \$0.10 for autos, except for Anacortes/San Juans.
1969	Fare increases ranged for \$0.05 to \$0.15 for passengers, and \$0.15 to \$0.20 for autos.
1972	Raised Anacortes-Sidney fares only.
1975	Fare increases ranged from \$0.00 to \$0.20 for passengers, and \$0.10 to \$1.05 for autos in an attempt to establish a uniform multiple of 3.4 for auto fares vs. passenger fares.
1977	Raised Anacortes-Sidney fares only.
1979	Across-the-board nominal fare increase of 13%; 20% summer surcharge instituted for autos. Actual increase ranged form 0% to 15%.
1980	Across-the-board nominal fare increase of 25%; actual increases ranged from 20% to 27%.
1981	Across-the-board nominal fare increase of 13%; actual increases ranged from 11% to 14%.
1982	Across-the-board nominal fare increase of 6.6%; actual increases ranged from 5.4% to 7.4%.
1984	Across-the-board nominal fare increase of 4.7%; actual increases ranged from -9.5% to 20%.
1987	Across-the-board nominal fare increase of 3.0%.

The comparison showed that most transit agencies had a much lower farebox recovery rate than WSF. The farebox recovery rates ranged from 15% to 25%, typical of public transit systems and much lower than the 60% target farebox recovery rate of the ferry system. All three of the surveyed agencies had increased fares twice if not three times between 1987 and 1993. This let WSF know that other public transportation providers were experiencing the same gap between farebox revenue and operating expenses.

Fare Options Considered

The Policy Committee directed that analyses be developed of the current and next four biennia showing ferry system revenues and expenses, the share covered by the farebox and various fare increase scenarios for consideration. An initial analysis provided options for generating needed revenues for the current year problem by selectively rounding certain fares to the next higher 25 cent increment, by designing other differential fare increases to meet certain policy goals such as demand management, and an across-the-board increase. After reviewing the findings of these analyses, the Committee decided it needed to determine farebox revenue needs for the entire ten-year period and to pursue only across-the-board increases.

Selective Fare Rounding

The Cross Sound auto fare was fixed at \$5.55 since 1987 and one option for generating revenues was to simply round the fare up to \$5.75. Concomitant increases would be made to the other routes. The Cross Sound routes, however, are the most heavily traveled and generate the most income. Autos are the most lucrative fare category to the system, generating about two-thirds of system farebox revenues. Fare rounding to autos only would have yielded about \$1.2 million or a 1.7% increase revenues.

Rounding the passenger full fare only (on the Cross Sound routes this would be from \$1.65 to \$1.75) would have yielded about \$600,000 or a .8% increase in revenues.

The operations staff had been interested for some time in quarter rounding to simplify cash handling at the toll booth. Staff felt that savings and efficiencies could be achieved by handling and counting fewer coins. The Policy Committee took this consideration into account, but felt that it did not represent a sound basis for setting fares, especially since it would mean different increases to different users, depending on the base fare from which the rounding started, which seemed inequitable.

Differential Fare Increases to Meet Policy Goals

Differential fare increases were considered as another option. Increasing some fare categories more than others could be used to meet a number of policy goals. For example, fare pricing can be used to affect people's behavior and how they use the system. Or fare pricing can be used to subsidize certain routes or certain classes of users for other reasons. The current statute governing ferry fares, for example, urges that reasonable commutation rates be maintained for persons using the ferries daily for travel to work or school, and based on this policy direction a system of discounts is offered to frequent users.

Transportation Demand Management. Transportation demand management (TDM) is a broad term used to denote policies intended to shift people to using transit or to traveling together instead of alone in their cars. Transit service, car and vanpooling, ride matching, diamond lanes and high parking prices are some of the techniques collectively known as TDM. WSF has a program to register car and vanpools and give them a separate access lane for preferential loading. Transit buses also get the preferred treatment. Currently 278 carpools and vanpools are registered with WSF.

During Tariff Review Phase I, the Policy Committee considered using fare pricing as a TDM tool but the only change adopted was the extension of the peak season surcharge. Demand management was brought up for review again in Phase II. The Committee considered the issue of differential pricing in this context, but generally felt that

increasing auto fares or decreasing passenger fares in relation to each other would be undesirable for a number of reasons. Many commuters use their cars to travel on the ferry daily because they work outside of Seattle where transit service is not very accessible. The Committee did not wish to penalize these riders. Another reason the Committee did not wish to raise fares differentially was the strong sense that the system should be viewed as a whole when considering fare pricing. The Policy Committee also felt that differential fares would complicate the tariff. Complication of the tariff would directly contradict the Committee's goal of fare simplification.

Other methods could be used to accomplish TDM goals. The walk-on monthly pass, which is discussed in detail later, would be one example of an effective TDM tool without differential fares. The employers subsidy of the pass would be the incentive for passengers to change modes from cars to walking on.

Additionally, the Policy Committee wanted the car and vanpool benefits to be more widely publicized. Let the general public know how easy it is to register a car or vanpool and the benefits available. The number of current car and vanpools is quite low considering the number of passengers WSF carries each year.

Thus after reviewing scenarios with differential fares, the Policy Committee decided to consider fares as a whole system and to proceed only with additional analysis of across-the-board increases.

Across-the-Board Fare Increases

Three major issues were analyzed: amount of increase needed, timing of increase, and frequency of increases in future years. The amount question asked, "How much of an increase is needed?" The timing question asked, "When should the increase take place and how will WSF's revenues be affected over time if the fare increase takes place in the spring or the fall of 1994, or in subsequent years? The frequency question, finally, asked, "How often will increases be needed in the future -- every year? every two years? or less often?"

Amount of increase needed. While 1993 still foresaw a \$1 million operating surplus, by 1994 expenses were projected to exceed operating revenues by \$6.4 million. Since the system would have had no fare increase in 7 years by 1994, the Committee agreed that a 1994 increase was needed and justifiable. The amount of the increase ought to be easy to explain to the public and needed to be directly linked to increasing operating expenses. The Committee first considered an inflationary fare adjustment. In 1993 the Seattle implicit price deflator (IPD) as determined by the U.S. Department of Labor was 3.11%. A fare increase equal to 3.11% was calculated to generate approximately \$1.5 million in additional revenue per year. The effect on the Cross Sound auto fare would have been to increase it from \$5.55 to \$5.70 (when rounded to the nearest nickel).

Timing of increase. The Committee considered several options for the timing of the fare increase. Two factors were important. Since some oversize vehicles would have received a fairly large increase in October 1993, it seemed burdensome to impose another increase too soon thereafter, so the beginning of 1994 was ruled out. On the other hand, the greatest revenue benefit to the system could be achieved by imposing the increase early in the year before the peak season when a disproportionate share of the annual revenues were generated. So the Committee opted to implement the 1994 across-the-board increase in May just at the beginning of the peak season. This would also allow a single fare change at the registers in the toll booths -- the peak season surcharge and the fare increase would begin simultaneously.

Having considered the amount and the timing of the fare increase, the Policy Committee determined that a 1994 fare increase needed to be viewed in the context of longer term operating expenses. It was assumed that by 1996 or 1997 new jumbo ferries would be coming on line and causing significant increases in expenses, so the Committee chose to re-analyze the amount of the increase in terms of the ten-year projected revenues and expenses including the new service.

Ten-Year Outlook

When forecast through the year 2001 (four biennia out), an alarming picture emerged: without fare increases, there would be an annual shortfall of \$6.4 million on the farebox side and \$13 million on the state support side of the revenue equation by fiscal 1998. At that point, three new jumbo vessels were projected to be in service causing significant new operating expenses without corresponding increases in revenues. While the cash reserves would act as a stopgap for the first few years, by FY 1999 all cash would be gone and the system would have a total shortfall of \$8.8 million, cumulating to almost \$50 million by the year 2001. This erosion of farebox and state revenues as well as cash reserves is shown on Table 4.

The Committee next directed that several scenarios be developed to meet the revenue needs of the system over time. In order to continue the easily explainable approach of tying fare increases to regular increases in operating costs, the Committee chose to study fare increases based on projected inflation rates (or IPDs). It considered scenarios with annual and biannual increases.

Insert Table 4

Annual fare increases over an eight-year period were not appealing for a number of reasons. The cost to inform the public and seek its input on each increase, the cost of reprinting the fare schedules every year, and the irritation of the public were all deterrents to annual fare increases. The biannual fare increases were much more acceptable because they would be less expensive to implement and would work well with the ferry system's budget process which, like all state government, is biennial.

Scenarios were developed using fare increases ranging from 6.04% in FY 1995 to 6.94% in FY 2001. Introducing a regular plan of inflationary fare increases every two years would keep the farebox recovery rate fluctuating between 61% and 64% over the eight-year period, even with the new jumbo service expenses. The first fare increase could begin in mid-1994, early 1995 or mid-1995. Analysis showed that for every 6 months delay in implementing an increase, the cumulative effect would be a loss of approximately \$6 million by the year 2001. This was an additional incentive to implement the first increase in May of 1994.

The Policy Committee therefore proceeded to adopt a draft recommendation for an across-the-board fare increase of 6.04% to be effective May 8, 1994 and to implement the required public involvement program.

The Initiative 601 Dilemma

While the Policy Committee was inviting the public to comment on the proposed fare increases during the fall of 1993, Initiative 601 was passed by the voters of the state that November. This initiative restricts the state legislature's ability to increase taxes and fees to a limit set by a combination of the inflation rate and population growth for the previous three years. While Initiative 601 exempts transportation taxes, it was unclear whether it would restrict ferry fare increases.

The Attorney General was asked to evaluate whether ferry fares are considered transportation fees under 601. Another question arose as to whether the 601 cap applies to each fare category individually or to the ferry system farebox revenues as a whole. For example, could the ferry system increase one fare by 10% and another by 2% as long as the increases system-wide did not yield more than this year's cap of 6.46%?

The Transportation Commission, out of respect for the wishes of the voters, preferred a conservative interpretation of the new restrictions. The Policy Committee too decided it would be prudent to consider the most restricted scenarios. No single fare category increase could exceed 601 cap rates. With the 601 restrictions in place, the fare increases would need to be reduced and implemented on an annual rather than biannual basis. Annual increases at the projected 601 rates were calculated and were determined to keep the farebox recovery rate around 60%. There would be one or two years in which the farebox recovery rate would drop below the 60% because of new expenditures when the jumbo ferries come on line in 1997 and 1998. Within two years of the jumbo ferries coming on line, however, the farebox recovery rate is back up to 60%.

Outcome of Fare Analysis and Deliberations

Having considered all of the options and restrictions for fare increases, the Policy Committee on November 30, 1993 made its recommendation to the Transportation Commission and the staff submitted the fare changes to the Code Reviser's Office. The Policy Committee also agreed that future across-the-board increases, not to exceed the Initiative 601 cap rates, should be implemented annually or as often as necessary to keep the system revenues at or above 60%. A caveat was adopted that if there were any significant changes in inflation that would affect 601 caps or if 601 were found not to apply to ferry fares, then the Policy Committee would reconvene and reevaluate the fare increases with the new circumstances in mind.

Oversize Fare Restructuring Phase III

Continuing with the three-phase introduction of a new fare structure for oversize vehicles, the Policy Committee took up the issue of the Phase III increases in the spring of 1994. The first phase had been implemented in the fall

of 1992 and the second was completed in the fall of 1993. The third and last phase of the restructuring was scheduled to take place in the fall of 1994.

However, the required increase well exceeded the Initiative 601 cap rate of 6.46% for 1994. In order to remain within the restrictions of 601, Phase III of the oversize fare restructuring would also need to be phased. Phase III of the oversize increases was therefore further broken down into three fare increases, to be implemented as soon as possible. The first of the three Phase III fare increases was scheduled to take place in the fall of 1994 in the amount of 6.46%. Because the ferry system is also proposing to introduce across-the-board fare increases annually, it may not be possible to impose the additional Phase III oversize increases above and beyond the general increases. The Committee however expressed its commitment to completing the three-phase restructuring, no matter how long it took. The Committee adopted a phrase that summed up its view of the matter: "If you are flying from New York to Seattle, you don't get off in Detroit."

International Fares

The international route from Anacortes to Sidney, British Columbia, has a different farebox recovery requirement than the rest of the routes. The international route is required by Transportation Commission policy to pay for itself, or have a 100% farebox recovery rate. During Phase I of the Tariff Review, an analysis of the revenues and expenses of the Sidney route had revealed a shortfall and the need for a fare increase, however, because Phase I was concentrated on tariff reform, not revenue generation, the Sidney fare increase was held over to Phase II.

In 1993 the Sidney route needed a 14% fare increase to achieve 100% farebox recovery. Along with its recommendation to raise fares across the board, the Policy Committee adopted a motion to raise the Anacortes to Sidney fares by 14% in May 1994. However, when Initiative 601 passed in November 1993, it became impossible to increase the fares by more than the cap rate for Fiscal Year 1994 which was 7.18%. So the May 1994 fare increases included a Sidney fare increase of 7.18%. The maximum fare increase allowed under 601 for FY 1995 (which began in July 1994) was 6.46%. Thus a second Sidney fare increase of 6.46% was recommended for October 1994. It was determined that together the two increases would bring the route very close to the 100% mark.

Public Involvement

State statute and Transportation Commission policy require that public input be sought before any changes in tolls are adopted. At a minimum, the law calls for consultation with the Ferry Advisory Committees and one public hearing by the Commission. During Phase I the Tariff Policy Committee conducted extensive public outreach activities to explain the rationale for the tariff restructuring, to communicate the fare impacts to specific user groups and to obtain comments from the public on the proposals.

Activities during Phase I included numerous meetings with the Ferry Advisory Committees, development of brochures and posters for placement on the ferries, public open houses at most of the terminal communities, mailings and briefings for user groups like the truckers and recreational vehicle groups, and press packets and editorial board visits. The outreach yielded considerable feedback, most of it positive. Where there was negative commentary on the proposals, it was used in several instances to modify the proposals and make them acceptable to the public.

After the Policy Committee decided to proceed with Phase II of the oversize restructuring and with the across-the-board fare increases, it was necessary to inform the public of the proposed changes. For the second phase of the oversize changes, a limited public outreach was considered sufficient, because the underlying reform had already been widely communicated and commented on. However, for the across-the-board increases extensive public information was desirable.

Outreach for Phase II of oversize fares. The starting point for public involvement was with notification of the Ferry Advisory Committees (FACs). This was carried out during the July 1993 round of FAC meetings. Comment was generally positive. Additionally, a brochure was developed for placement on the ferries and mailings were sent to the affected user groups and local elected officials. The Commission held its public hearing on August 19, 1993. Hearing no adverse opinion, the Commission adopted the second phase of the oversize fares and they were implemented on October 10, 1993.

Outreach for the general fare increase. Because this was to be the first general fare increase in seven years, a wide-reaching public involvement strategy was designed and discussed with the Policy Committee. As with the other fare changes, the first step was consultation with the Ferry Advisory Committees. The reactions from these groups would be a gauge for what to expect from the general public. Also, an extensive series of public open houses was scheduled to be held aboard ferries and at ferry terminals during peak commute hours.

The objectives of the public involvement plan were to:

- Maximize understanding and acceptance of the proposed fare increases
- Involve constituents in a review of the rationale for the proposed increases
- Communicate the fare increases in the context of services provided and the rising cost of operations
- Tailor the messages to particular audiences

Other elements of the public involvement strategy included development of an informational brochure and posters, media packets and briefing packets to elected officials, public transit and commercial bus operators, truckers, RV groups, schools, chambers of commerce and visitors bureaus.

The open houses were held in mid-November 1993 at Winslow, Bremerton, Kingston, Clinton, Southworth and Friday Harbor. The turnout at most locations was minimal and comments from the public seemed to indicate that people recognized it was time for a general fare increase. Some riders commented, "It's about time," and were actually relieved that the increase was only 6%.

Southworth. Only on the Southworth route was rider opposition to the fare increases evidenced. Southworth passengers expressed the feeling of being treated like "second class citizens" because the service to Southworth is less frequent, more expensive and often delayed when compared to the Vashon routes. The region of south Kitsap, North Pierce and Mason Counties has grown considerably in the last few years and the ferry system is experiencing severe capacity constraints on the Southworth route. Many residents of these areas who must commute to Seattle to their employment, ride the ferry to Vashon and then transfer to the passenger-only ferry to downtown Seattle. Together with the Vashon, commuters, these ferries are overcrowded during peak commute times and considerable resentment has developed among some riders.

These riders strongly expressed their views that they were opposed to any fare increases on the Southworth route until service could be improved. While the Southworth route is in line for service improvements when the new jumbos come on line, that is still several years in the future. In response to the situation on the Southworth route, the Policy Committee considered several interim solutions to provide relief to the riders there.

- One option, which was proposed by the Southworth riders, was to suspend the fare increase for the Southworth route until Southworth received improved service. This idea would have complicated the fare structure by creating a new, separate fare category for Southworth only, an option the Policy Committee did not consider reasonable.
- Another option considered by the WSF staff was to subsidize the joint bus/ferry pass for Southworth riders to encourage passengers to ride from Southworth to Fauntleroy and then ride the bus into downtown Seattle.

This would relieve the crowding on the passenger-only route and would be a smoother (although somewhat longer) commute downtown for Southworth passengers.

Analysis showed that this proposal would represent a cost of approximately \$86,000 annually to the ferry system if 50% of the Southworth riders took advantage of the subsidized pass. The Policy Committee found administrative problems with the subsidized pass: it would be difficult to identify the Southworth passengers and restrict the pass to only those riders. Another issue was that the subsidized pass would only solve part of the problem, the cost of the ride. The main problem was not so much cost but rather the inconvenience of crowding and delayed ferries. Southworth really needed improved service which could not be satisfied with the proposed solution.

These interim solutions were not able to address the real issue of improved service for Southworth, so the Policy Committee concluded that fare pricing was not the appropriate mechanism to use. The Committee recommended that the Southworth riders be kept posted on the time frame for improved Southworth to Fauntleroy service and a possible new passenger-only route from Southworth direct to Colman Dock in downtown Seattle.

The public involvement activities concluded with a Transportation Commission public hearing on March 17, 1994. The Commission unanimously adopted the fare increases recommended by the Policy Committee. The new fares took effect May 8, 1994.

Passenger-Only Ferry Fares

The issue of expanded passenger-only service was being reviewed by the Department of Transportation during Tariff Review Phase II. The purpose of the study was to develop a plan for expanded and improved passenger-only ferry (POF) service in Puget Sound, and to present an implementation plan for the new service. The study focused on vessel technology, vessel sizing and terminal improvements.

The passenger-only study analyzed new service from Kingston and Southworth to downtown Seattle. While the current routes operate from Southworth to Fauntleroy and from Kingston to Edmonds, many of the passengers continue travel from Fauntleroy or Edmonds into Seattle. If those passengers could travel directly to downtown Seattle, it would help relieve the crowding and delays on the current routes and would meet state transportation policy goals of enabling riders to shift from auto to walk-on use of the ferries.

The issues of fare pricing and farebox recovery were not directly addressed by the POF study and in the spring of 1994 it became appropriate for the Tariff Policy Committee take up these issues. Since new passenger-only service would add considerable costs but also new fare revenues to the overall ferry system operations, the staff and the Policy Committee wished to incorporate POF into the system's 10-year operating forecast. Baseline passenger-only service was projected to begin in FY 1998 at which time an additional \$17 million in costs would be incurred annually. The 60% farebox share of that amount would be about \$10 million per year in additional fares that would need to be generated.

A number of different pricing options were analyzed and considered for POF service. They included:

- Regular passenger fares (current policy)
- Premium fares for passenger-only service
- Increased fares only on the Central and South Sound routes
- Reduced auto coupon discounts
- Across-the-board fare increases to all riders
- Combinations of these options

The analysis of these options assumed that just operating the ferry system without the new POF service would already require inflationary fare increases throughout the system every year between now and the year 2001. It also assumed that the farebox would continue to cover 60% of operating costs and that the state would step up to raise taxes for the remaining 40%.

Regular and premium passenger-only pricing. At regular current passenger fares only about one million dollars in new fare revenues would be generated. At a premium fare of \$2 per ride, or about double the regular fare, about \$1.66 million would be generated (assuming fare elasticity of -.5). It quickly became clear to the Policy Committee that even with a significant fare increase the fares of passengers using the POF service alone would not be sufficient to cover the costs the service.

Central/South Sound fare increase. Another pricing option considered was a general fare increase to all riders, but only on those routes that will experience benefits from the new POF service. Since the new service would shift riders away from existing Central and South Sound auto routes by creating alternatives, all of the routes in the Seattle commuting region should share in the cost of the new service. Analysis resulted in the finding that to maintain the farebox at about a 60% recovery rate, a 21% fare increase would be needed in FY 1998 when the new POF service came on line.

Reduced auto coupon discounts. Currently autos that travel frequently on the ferries enjoy a 20% discount from the full fare. Options were considered under which this discount would be reduced to 15% and to 10%, the rationale being to provide a TDM disincentive to autos by increasing their fares. The reduction of the discount from 20% to 15% represented a 6.3% fare increase and yielded about \$950,000 a year in new revenues. The reduction to 10% represented a 12.6% fare increase and yielded about \$1.7 million per year.

Combinations including across-the-board increases. All of these scenarios individually generated insufficient revenue to fund the cost of the new passenger-only service. Analysis of combinations of options was conducted and showed that, for example, if premium pricing were introduced, the system would still need a general fare increase of 12.2% to all riders to pay for POF service. Another example showed that premium pricing for passenger-only service, a reduced auto coupon discount of 15% and a Central/South Sound increase of 6.3% would be needed in combination to generate the required \$10 million.

The Policy Committee concluded that all of these options had fundamental flaws that went counter to the goals of the Tariff Review. They increased the complexity of the fare structure and moved away from the principle of treating the whole tariff as an integrated system whose parts were linked to each other. Thus, the Committee chose to pursue across-the-board funding for POF service.

Across-the board increases under Initiative 601. Since WSF operations had previously been analyzed and understood to require annual inflationary fare increases just to fund existing service, the challenge was to determine whether the increment of increase allowed under Initiative 601 would be sufficient to generate the funds needed for expanded passenger-only service. For example, for FY 1998, the year in which POF was due to begin service, inflation was projected to be 2.89% and the 601 cap was projected to be 4.42%, leaving an increment of about 1.5% of allowable increase in fares.

Table 5 Required Fare Increases to Fund Operations Including Expanded Passenger-Only			
	Projected IPD	Additional Amount Needed for POF	Projected 601 Cap
1996	3.23%	1.94%	5.17%

1997	3.13%	1.51%	4.64%
1998	2.89%	1.53%	4.42%
1999	3.14%	1.42%	4.56%
2000	3.24%	1.26%	4.50%
2001	3.28%	1.05%	4.33%
2002	3.49%	0.79%	4.28%
2003	3.60%	0.00%	4.42%

The analysis showed that if fares were increased by the maximum allowed under 601 each year beginning in 1996, there would be shortfalls of \$6.3 million in FY 1998 and \$4.1 million in FY 1999, bringing the farebox recovery to 52% and 55%, respectively, in those first years of POF operation. However, by the year 2001 the farebox would be back over 60% and operating in the black. This progression is illustrated in Table 6.

[Insert Table 6 -- Fare scenario 1B from June 6 mtg]

The rub, of course, would be that the Commission would have to authorize across-the-board fare increases every year from 1996 to at least 2003 (the extent of current planning). The required fare increases would decline over time, but would still almost certainly cause distress to riders who depend on the ferries for their daily commute to work.

Commercial Account Billing

The ferry system maintains a billing system for commercial accounts who use the ferries on a regular basis. The commercial client is billed at the end of each month and receives a discount for frequent use of the ferry system. During Tariff Review Phase I, the Policy Committee became aware that the commercial account billings were 6 to 8 months behind and became concerned about the extension of public credit to these business users.

The Policy Committee felt the commercial accounts were receiving a double benefit from the ferry system. Not only did the commercial clients receive a discount for frequent use, they also were allowed to pay many months after using the system. All other fare categories receive a discount for frequent use only if the fares are prepaid (through purchase of a coupon book). The Policy Committee directed that commercial accounts should prepay in order to receive the frequent user discount, or as an alternative, they should continue to receive a statement each month without the frequent user discount.

The commercial account issue was revisited during the Tariff Review Phase II. At that time the commercial accounts had been brought up to date as the result of management efficiencies at WSF. All commercial account statements were being sent on time each month and the accounts receivable had been reduced dramatically. The question that remained was, should the commercial accounts still have to prepay to receive the frequent user discount and, if so, what prepayment method was preferred?

A survey of several commercial clients was conducted to find out how commercial clients felt about a prepayment program. The survey asked the following questions:

1. How does the company handle the ferry fare payment for each driver? Does it always charge to the commercial account, pay cash, or check?
2. Is the company of a size that clients prepay it? If so, how is this prepayment handled?
3. Does the company currently prepay any accounts? How do those accounts work?
4. Which of the following two scenarios would work best for the company:
 - A. WSF would take the average of monthly charges for the previous year and that amount would be the prepayment amount each month for the current year. Each year new monthly payments would be calculated.
 - B. WSF would take the actual charges for each month of the previous year and that fluctuating amount would be due at the beginning of each month. For example, the amount charged in July 1993 would be the prepayment amount for July 1994.

For both scenarios, at year end the actual charges rendered would be compared to the amount paid and the difference would be reimbursed to the client, in the case of overpayment, or due to WSF in the case of underpayment.

All the commercial users interviewed liked the current system and had never prepaid any accounts. The idea of prepayments did not make sense to them. If they had to choose the type of account, as described above, opinions were about evenly split between (A) the average payment and (B) the fluctuating payment.

Prepayment of commercial accounts brought up several administrative questions and complications. The tracking and calculating of prepayments would be a significant administrative task for WSF. It would require acquiring software or re-programming the existing billing system to track funds used and credits remaining. Prepayment would leave a state agency, WSF, holding private funds and this was seen as a situation the state wanted to avoid. Additionally, the agency was in the process of implementing new point of sale technology that would be able to accommodate the proposed changes in billing methods. In light of these factors and the now smooth functioning of the commercial account billing system, the staff asked the Policy Committee to reconsider its earlier direction.

One suggestion from the Policy Committee was to offer a discount for early payment. This method of payment is common for other companies when invoicing for services provided. It was agreed the staff would research a prompt payment discount program for commercial accounts and that the idea of prepayment would be deferred until the new point of sale system was in place.

Monthly Commuter Pass

The ferry system currently has several payment media for frequent users, but no dedicated ferry monthly pass. For passengers who use both the ferry and a bus, there are ferry/bus monthly passes with Metro and Kitsap Transit. The joint passes are priced at a 50% discount off regular fares on the WSF portion of the pass price.

WSF also offers coupon books with tear-out tickets as its main multiple-use fare mechanism for frequent users of the ferry. The coupon books offer 20 rides at a 40% fare discount off the full fare. The coupons are especially popular with ferry users because the tickets can be removed from the book and shared with family members, neighbors or friends. The coupons are valid for 90 days from the date of purchase, so they may be used by riders who do not commute daily but only use the ferries three or four times a month.

Riders who do use the ferries daily to commute have been asking for some years for a ferry monthly pass like the ones offered by other regional transit operators. In particular, riders would like to benefit from subsidies that many employers offer. Most employers will not subsidize the coupon books because the tickets can be shared with people other than employees of the company subsidizing the coupon book. Companies would subsidize a monthly flash pass that could be used by their employee only.

The issue of a ferry monthly pass was first raised in Phase I of the Tariff Review. WSF proposed to develop a new monthly pass for passengers who use the ferries daily to commute to their job or school. During Phase I, the monthly pass proposal was linked to an increase in the price of the frequent user coupon. The proposal involved offering a deeply discounted pass with an offsetting price increase to the frequent user coupons. Some ferry commuters objected to the proposal, however, because they ride the ferries only three or four days per week and they would have been penalized, not benefited, by the new arrangement.

Additionally, implementation of a monthly pass presented a number of obstacles for WSF operations. Terminal staff were concerned about the end-of-month crush when all pass holders would need to stand in line to purchase the new month's pass. This would create long lines and delays at the toll booths and possibly delay vessel sailings during peak commute times. Given these factors, the Policy Committee deferred implementation of a new monthly pass to Phase II.

When it came time to reconsider the monthly pass, staff recommended its implementation be divided into two parts: the sale of passes through employers could begin on a pilot basis, however the sale of passes to individual commuters should be delayed until WSF ticket vending is implemented. WSF met with Metro and asked for

assistance in developing an employer-based pass distribution program. Metro had been distributing its passes through employers in King County for a number of years and had a wealth of information on which employers offered subsidies, and so on. Metro offered to include information about WSF's pilot pass project in its mailing to employers when WSF was ready to solicit employers to its own program.

After meeting with Metro, WSF conducted a survey of a number of major employers who currently sell over 100 passes per month to learn whether they would be open to selling and subsidizing a ferry monthly pass. The responses to the survey were highly positive. Many employers were already familiar with the joint Metro/WSF monthly pass. Many said they have been waiting for the WSF monthly pass and most employers said they would subsidize the WSF monthly pass at the same rate as they currently subsidize the Metro monthly pass. The average subsidy level of the employers surveyed was 50% of the pass value.

The positive response to the survey and Metro's cooperation helped persuade the Policy Committee to initiate the ferry monthly pass pilot project. The pass will be available on all Cross Sound and short routes (that excludes the San Juans Islands, Sydney and Port Townsend-Keystone -- routes that primarily serve tourists). The pricing of the pass will be based on 21 days of travel with a 40% discount off regular fare. The first passes will be distributed through employers in November 1994.

Annual Bicycle Pass

WSF has long been interested in promoting cycling onto ferries to help accomplish the ferry system's TDM goals. In 1993, the ferry system convened a bicycle task force to examine issues related to loading and unloading bicycles, and bicycle fares. After numerous meetings, WSF and the cyclists proposed a new bicycle pass to be made available to users who agreed to abide by a jointly developed bicycle policy. This pass would cost \$10 per year and would allow the commuter cyclist to have the usual \$0.50 bicycle surcharge waived. The pass would be available on all Cross Sound and short routes except Port Townsend-Keystone.

The proposal was presented to the Policy Committee which adopted it on a one-year trial basis. After the first year, the program will be reviewed and a decision will be made whether to continue it.

Summary and Conclusion

The Tariff Review Phase II Policy Committee initiated a number of significant changes for Washington State Ferries:

- A policy of system-wide annual fare increases was adopted to keep pace with system operating costs. Increases within the Initiative 601 cap rates are scheduled to take place over the next few years. These increases will keep the farebox at or near the 60% target for farebox recovery even if expanded passenger-only service moves forward.
- The 100% cost recovery policy for the international route was reaffirmed. The Sidney routes are now at or near 100% farebox recovery and are expected to remain there with the scheduled annual fare increases.
- Passenger-only fares are recommended to remain the same as the current passenger fares, and the farebox portion of the cost of expanded passenger-only service is proposed to be funded out of system-wide fare increases.

- The commitment to the restructuring of the oversize tariff was reaffirmed and Phase II of the oversize fares were implemented in October 1993. Phase III of the oversize fares is being phased in over time due to the constraints of Initiative 601.
- The first WSF monthly ferry commuter pass will be available for distribution through employers starting in November 1994.
- A new bicycle annual pass will soon be available on a pilot basis for \$10 per year.